

**DIRECT TESTIMONY AND EXHIBIT OF**

**DAWN M. HIPPI**

**ON BEHALF OF**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2019-1-E**

**IN RE: ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS**

**OF DUKE ENERGY PROGRESS, LLC**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Dawn M. Hipp. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Chief Operating Officer of the Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received my bachelor's degree in political science from Minnesota State University - Moorhead. Prior to my employment with ORS, I managed the financial, operations and regulatory aspects for an environmental company that provided turn-key hazardous waste consulting services for the United States Department of Defense.

In 2004, I joined ORS as a Program Specialist for the Water and Wastewater Department. I became a Director in 2007 and, in 2018, was promoted to the position of Chief Operating Officer with responsibility for all ORS operational functions within the following divisions: Energy Policy; Utility Rates and Services; Telecommunications; Consumer Services; and Safety, Transportation, and Emergency Response.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?**

**A.** Yes. I have testified on numerous occasions before the Commission relating to general rate cases, consumer complaints and other proceedings.

**Q. WHAT IS THE MISSION OF ORS?**

**A.** ORS represents the public interest as defined by the South Carolina General Assembly as:

The concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

**A.** The purpose of my testimony is to set forth ORS’s recommendations resulting from the examination of Duke Energy Progress, LLC’s (“DEP” or “Company”) Distributed Energy Resource Program (“DERP”) expenses for the period of March 2018 through February 2019 (“Actual Period”), March 2019 through June 2019 (“Estimated Period”), and July 2019 through June 2020 (“Forecasted Period”).

**Q. WHAT EXPENSES RELATED TO THE COMPANY’S DERP ARE INCLUDED IN THIS PROCEEDING?**

**A.** Pursuant to S.C. Code Ann. § 58-39-130(A)(2) (2015), an electrical utility with an approved DERP may recover associated costs that are reasonably and prudently incurred, and pursuant to S.C. Code Ann. § 58-39-140(F) (2015), cost recovery shall remain in force until all approved DERP components have been recovered. The Company’s DERP was approved in Commission Order No. 2015-514, and the Company included in this filing

actual, estimated and forecasted avoided and incremental costs for the period of March 1, 2018 through June 30, 2020.

**Q. PLEASE EXPLAIN THE INCLUSION OF DERP AVOIDED COSTS TO BE RECOVERED IN THIS PROCEEDING.**

**A.** According to S.C. Code Ann. § 58-39-140, payments for electricity provided under the DERP that are paid at avoided cost rates or rates negotiated pursuant to the Public Utility Regulatory Policy Act of 1978 (“PURPA”), whichever is lower, are eligible to be recovered through the DERP avoided cost component.

The Company incurred DERP avoided costs during the Actual Period for utility-scale purchased power and excess Net Energy Metering (“NEM”) payments to customers. These costs were allocated using the same method the Company uses to allocate and recover variable environmental costs. Actual and estimated DERP avoided cost totals are shown in ORS witness Briseno’s Audit Exhibit ADB-10.

**Q. WHAT TYPES OF EXPENSES HAS THE COMPANY INCLUDED AS DERP INCREMENTAL COSTS?**

**A.** The Company included General and Administrative costs incurred to implement the Company’s DERP, costs related to the Shared Solar Program, costs above avoided costs, NEM incentives and avoided capacity, amortization of solar rebates and related carrying costs, NEM meter costs, and interest on under-collection of DERP incremental costs due to the annual recovery caps prescribed in S.C. Code Ann. § 58-39-150. Actual and estimated cost totals are shown in ORS witness Briseno’s Audit Exhibit ADB-9. Exhibit DMH-1 reflects the under-recovered and total estimated and forecasted incremental costs.

**Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENTS TO DERP COSTS.**

**A.** In June 2018, the Company made an under-recovery adjustment to base fuel in the amount of \$3,199 and a corresponding under-recovery adjustment to incremental costs in the amount of \$64,016 to account for corrections to the solar profile input data for the period of July 2017 through June 2018. According to the Company, the solar profile input data was misinterpreted as provided on a KW-DC basis, and was converted to KW-AC. However, the solar profile input data had actually been provided on a KW-AC basis. The Company's corrections result in changes to generator outputs and expenses based upon the corrected input data. The adjustment to base fuel costs is reflected on ORS witness Briseno's Audit Exhibit ADB-5. The adjustment to DERP incremental costs are reflected on ORS witness Briseno's Audit Exhibit ADB-9.

In January 2019, the Company made an under-recovery adjustment to incremental costs in the amount of \$56,595 and a corresponding over-recovery adjustment to avoided costs in the amount of \$5,682 for the reclassification of DERP avoided costs to DERP incremental costs for the period of December 2017 through December 2018. The adjustment to DERP incremental costs are reflected on ORS witness Briseno's Audit Exhibit ADB-9. The adjustment to DERP avoided costs are reflected on ORS witness Briseno's Audit Exhibit ADB-10.

**Q. EXPLAIN THE UPDATE TO DERP INCREMENTAL COSTS AS FILED IN COMPANY WITNESS HARRINGTON'S SUPPLEMENTAL TESTIMONY?**

**A.** The Company filed supplemental testimony to incorporate the Commission's directive issued on May 8, 2019 in Docket No. 2018-318-E. As required by the Commission directive, the Company reduced the unamortized solar rebate balance by \$6

million to reflect the offset of the excess deferred income tax balance and adjusted the solar rebate carrying charge component to reflect the authorized revised return on equity of 9.5% effective June 1, 2019. As a result, the DERP Incremental Costs for recovery decreased by approximately \$354,000 for the estimated period and decreased by approximately \$814,000 for the forecasted period.

**Q. DID THE ORS FIND THE COMPANY'S DERP AVOIDED AND INCREMENTAL COSTS TO BE REASONABLE?**

**A.** Yes. ORS found the Company's adjusted DERP avoided and incremental costs to be reasonably and prudently incurred in implementing the Company's DERP. ORS also reviewed the Company's Estimated and Forecasted DERP avoided and incremental costs and found them to be reasonable.

**Q. PLEASE EXPLAIN THE DERP CHARGE PER ACCOUNT.**

**A.** The fixed charge by which the Company proposes to recover DERP incremental costs ("DERP Charge") is determined by allocating and collecting DERP incremental expenses in the same way the Company allocates and collects variable environmental expenses. The revenue is collected as a fixed charge per account to ensure that no account charge exceeds the annual recovery caps prescribed in S.C. Code Ann. § 58-39-150. ORS finds the Company's methodology to calculate, allocate, and collect the DERP Charge complies with Act 236 and with Commission orders.

**Q. WILL THE PROPOSED ANNUAL DERP CHARGE RECOVER ALL THE INCREMENTAL COSTS?**

**A.** No. The DERP Charge will not recover all the incremental costs allocated to the Residential and Industrial customer classes. A full recovery of DERP incremental costs

would require an annual DERP charge of \$13.69 for Residential customers and \$1,746.05 for Industrial customers. However, the annual recovery caps prescribed in S.C. Code Ann. § 58-39-150 (2015) limit the amount Residential and Industrial customers can be charged each year to \$12.00 and \$1,200.00, respectively. DEP's annual DERP charge will recover all incremental costs from Commercial customers as the costs are under the annual recovery caps of \$120.00.

**Q. HOW WILL UNDER-COLLECTED INCREMENTAL COSTS BE TREATED?**

**A.** Under-collected incremental costs will be treated in the same manner as other fuel and fuel-related under-collected balances are treated. The under-collection will be reallocated using each class's contribution to peak demand.

**Q. DOES ORS HAVE ANY RECOMMENDATIONS REGARDING THE DERP CHARGES PROPOSED BY THE COMPANY?**

**A.** No. ORS finds that the Company's calculations are in compliance with Act 236 and with the Commission's orders in previous DERP-related proceedings and supports the following annual proposed DERP Charges: Residential \$12.00, Commercial \$24.23, and Industrial \$1,200.00. Exhibit DMH-1 details the totals by class.

**Q. DID THE COMPANY UPDATE THE VALUE OF NEM DISTRIBUTED ENERGY RESOURCES ("VALUE OF DER")?**

**A.** Yes. As shown in Company witness Snider's testimony (page 5), DEP proposes a total Value of DER of \$0.05033/kilowatt-hour ("kWh") for residential solar generation, \$0.05032kWh for small general service generation, and \$0.05024/kWh for large solar generation. In this proceeding, the Company calculated a separate value for residential

solar generation based on the availability of actual customer data. The Company continues to utilize third-party solar load profile data for non-residential customers.

**Q. IS THE COMPANY'S CALCULATION OF THE NEM INCENTIVE CONSISTENT WITH DOCKET NO. 2014-246-E?**

**A.** Yes. The Company used the methodology approved in Commission Order No. 2015-194 to calculate the NEM incentive. The Company determined the difference between the expected revenues from NEM customers with and without DERP. Once the revenue gap was identified, the value of the customers' distributed generation was calculated using the amount from the NEM tariff approved in Commission Order No. 2018-456 in Docket No. 2018-1-E. The outstanding revenue was divided by the number of kWhs the customers of each applicable rate schedule generated to calculate the NEM incentive.

**Q. DOES ORS HAVE ANY RECOMMENDATIONS REGARDING THE PROPOSED UPDATES TO SC RIDER RNM-7?**

**A.** No. ORS reviewed the *de minimis* modifications as discussed in Company witness Martin's testimony and Exhibit 1 SC Rider RNM-7. ORS does not oppose the Company's proposed modifications to SC Rider RNM-7. The Company will need to update SC Rider RNM-7 to incorporate the provisions of the recently passed SC Energy Freedom Act.

**Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?**

**A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, becomes available.

1   **Q.       DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2   **A.           Yes.**



**Office of Regulatory Staff**  
**Calculation of DERP Charge**  
**Duke Energy Progress, LLC**  
*Docket No. 2019-1-E*

**EXHIBIT DMH-1**

<b>(Over)/Under-Recovery of DERP Incremental Costs</b>			
<b>March 2018 through June 2019</b>			
	<b>Residential</b>	<b>Commercial</b>	<b>Industrial</b>
Cumulative (Over)/Under-Recovery	\$98,692	\$38,915	\$17,028
<b>(Over)/Under-Recovery of DERP Incremental Costs</b>			
<b>July 2019 through June 2020</b>			
	<b>Residential</b>	<b>Commercial</b>	<b>Industrial</b>
Cumulative (Over)/Under-Recovery	\$1,818,794	\$719,940	\$447,420
<b>Total DERP Charge</b>			
<b>March 2018 through June 2020</b>			
	<b>Residential<sup>1</sup></b>	<b>Commercial</b>	<b>Industrial<sup>1</sup></b>
Cumulative Under-Recovery through June 2020	\$1,917,486	\$758,855	\$464,448
Number of accounts	140,028	31,323	266
Annual Cost (\$) <sup>2</sup>	\$12.00	\$24.23	\$1,200.00
<b>Monthly DERP Charge (\$) <sup>2</sup></b>	<b>\$1.00</b>	<b>\$2.02</b>	<b>\$100.00</b>

<sup>1</sup> Monthly Charge and Annual Charge are capped in compliance with Act 236. The under-collection will be reallocated in the 2020 fuel proceeding.

<sup>2</sup> ORS' review does not include Gross Receipts Tax.